

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

ANNUAL COMPLIANCE REVIEW, 2012

Docket No. ACR2012

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
QUESTION 3 OF CHAIRMAN'S INFORMATION REQUEST NO. 4

The United States Postal Service hereby provides its response to Question 3 of Chairman's Information Request No. 4, issued on January 18, 2013. Responses to the other questions were filed on January 25, 2013.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 4

Question 3

In response to CHIR No. 1, question 2(c), the Postal Service explains that “[g]iven the product’s low cost coverage and the limitations of the price cap system, the shortfall is unlikely to be eliminated by the end of 2016, when the Commission will commence a comprehensive review of the present regulatory system.” For the following questions, please assume that the Commission makes no changes to the applicable regulations.

- a. Please provide the unit revenue expected as a result of above average CPI increases for Standard Mail Flats and the expected unit attributable cost for Standard Mail Flats for all fiscal years beginning in FY 2013 and continuing until the unit revenue of the Flats product exceeds its unit attributable cost. Please explain all assumptions related to changes in unit attributable costs and volumes. Provide all supporting workpapers.

RESPONSE:

- a. Based on the latest estimates available to the Postal Service from IHS Global Insight, CPI-U will grow by 1.57 percent in 2013, 1.66 percent in 2014, and 1.57 percent in 2015. Assuming that Global Insight’s CPI-U estimates are correct, that the Governors choose to increase Standard Mail Flats prices by 105 percent of CPI-U, and that costs remain constant, the Postal Service would expect Standard Mail Flats’ unit revenues and unit attributable costs for FY 2013 – FY 2016 to be approximately as follows:¹

Year	Class Average Price Increase (CPI-U)	Standard Flats Price Increase	Unit Revenue	Unit Attributable Cost
FY 2013	2.57%	2.62%*	0.388*	0.465
FY 2014	1.57%	1.65%	0.394	0.465
FY 2015	1.66%	1.74%	0.401	0.465
FY 2016	1.57%	1.65%	0.408	0.465

* Actual increase and projected unit revenue from Docket No. R2013-1 price change.

¹ The FY 2014, FY 2015, and FY 2016 figures assume that the adjusted prices would remain in effect for 12 calendar months.

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The Postal Service questions the efficacy of providing projections beyond 2016, as such estimates would be highly speculative and would inevitably be subject to change, because of the variability of so many factors. For example, while the inflation estimate for 2013 could reasonably be relied on, the estimates for 2014 and 2015 are not as reliable, and confidence in estimates for later years would fall even more.

Moreover, providing estimates until unit revenues exceed unit costs runs counter to the Commission's interpretation of its powers to order remedial action pursuant to 39 U.S.C § 101(d); namely, that compliance with this section "does not require 'only 100% cost coverage, and nothing short of 100%...'”²

² Docket No. ACR2010-R, Order No. 1427: Order on Remand (Aug. 9, 2012), at 14.